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PROBABLE DEVELOPMENTS IN BRAZIL

Submitted by the

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Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 8 January 1957. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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PROBABLE DEVELOPMENTS IN BRAZIL

THE PROBLEM

To assess the character of the present regime, and to estimate its probable stability and probable policies over the next two years.

CONCLUSIONS

1. The Kubitschek administration, which came into office a year ago with only a third of the popular vote and against a background of extreme political tension, is trying to restore harmony in Brazil by following a middle-of-the-road course. However, a combination of army, labor (led by Vice-President Goulart), ultra-nationalistic, and Communist elements is attempting to organize an extremist-oriented regime around War Minister Lott. The majority of the air force and navy, a portion of the army, and rightist civilian elements oppose the present administration and particularly desire to remove Lott from a position of power. (*Paras. 8-12*)
2. This tense atmosphere is a reflection of President Kubitschek's inability to consolidate his political position. Despite serious handicaps, however, the administration is able to take positive action on a broad range of economic and foreign policy matters. (*Paras. 13-16*)
3. Kubitschek will probably be able to stay in office over the next two years. However, it is unlikely that he will be able to build up disciplined political support in congress or to curb effectively the army's political influence. (*Paras. 25-28*)
4. The Kubitschek administration has serious economic problems. Although the government will probably continue to make moderate progress in the development of basic services, the rate of economic growth is unlikely to increase appreciably. Inflation will almost certainly continue, but will probably not exceed the high rate of previous years. (*Paras. 18-21, 30-31*)
5. The Kubitschek administration is attempting to continue Brazil's traditional pro-US foreign policy. It is cooperating with the US on major international political issues. However, on matters of economic and military cooperation, it generally has to defer to congress and the armed forces, both of which are highly sensitive to any development which appears to infringe upon Brazilian sovereignty. This situation will probably continue. (*Paras. 22-24, 32-33*)
6. Although the Communist Party is outlawed, the Communist movement is well-

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organized and well-financed. The Communists are able to cooperate effectively with the non-Communist ultranationalists in both congress and the army in exploiting the already highly developed

nationalistic sentiments of the population. However, they do not by themselves possess sufficient strength to constitute a serious threat to the Kubitschek regime. (*Paras. 17, 29*)

DISCUSSION

7. The situation in Brazil over the next few years will affect important US strategic, political, and economic interests. At stake are military base requirements, strategic raw materials, cooperation on international issues, and levels of trade and investment. Brazil's attitudes with respect to these US interests will depend upon the relative influence of various competing domestic groups, upon economic developments, and upon US policy toward Brazil.

THE POLITICAL PROBLEM

8. The Kubitschek administration, which came into office a year ago with only a third of the popular vote and against a background of extreme political tension, is attempting to restore political harmony to Brazil by following a middle-of-the-road course.¹ The President, a member of the moderate Social Democratic Party (PSD), is attempting to forge a working relationship with a divided congress and a generally uncooperative and in part hostile military organization. He is also working to curb the ultranationalists and the Communists.

9. However, a combination of army, labor, ultranationalist, and Communist elements is attempting to undermine Kubitschek's position by organizing around General Henrique Teixeira Lott a political movement of extremist orientation. Lott, soon after becoming War Minister, revealed himself as a constitutionalist with no pronounced political convictions, but his recent statements and activities suggest that he is increasingly disposed toward the labor-ultranationalist position. Vice-President Joao Goulart, the ambitious head of the

Brazilian Labor Party (PTB) and generally considered as Vargas' political heir, is establishing closer relations with Lott in an effort to enhance his own opportunities. Labor, which ordinarily plays a passive political role, would probably respond to Goulart's leadership in the event of a political crisis.

10. It is largely the weakness of the President's political position and the increasing boldness and outspokenness of the civilian and military opposition that have encouraged the faction of the army led by Lott to expand its political role.² Lott's preventive coup of November 1955, which ensured the inauguration of Kubitschek, split the military, and resulted in a pro-Kubitschek army-civilian alignment opposed by predominantly conservative armed forces-civilian elements. Since then, the army has provided protection against antiadministration groups in the armed forces, but it has also intervened in politics by insisting upon curbs on rightist opposition activities and advocating nationalistic policies with respect to development of Brazil's natural resources.

11. Lott's political activities and the increasing influence of the army in Brazilian politics have intensified the bitter friction already existing among the armed forces. The main outlines of the various divergent military attitudes are: (a) the majority of the air force and navy and a portion of the army are hostile to the present regime in general and to Lott in particular; (b) a small but highly influential army group is backing Lott although many of this group probably look upon Goulart as their real political leader;

¹ See Appendix A for political background.

² The capabilities of the armed forces are discussed in Appendix B.

and (c) a sizable military group, consisting mainly of army and police, strongly supports the present administration.

12. Indications that Lott may be inclined to sponsor a labor-ultranationalist government are also causing uneasiness among civilian conservatives who are concerned for the stability of established institutions and fearful of a leftist political trend. They are publicly demanding that both Lott and Kubitschek be replaced. President Kubitschek is endeavoring to restore political calm by curbing the activities of pro- and anti-Lott political organizations.

13. This tense political atmosphere is a reflection of President Kubitschek's inability, after one year in office, to consolidate his political position. He is seriously handicapped in his efforts to carry out his programs by the lack of a disciplined political organization. The so-called "administration bloc,"³ which holds over two-thirds of the seats in both houses of congress, does not provide the President with sustained support. The various parties of the bloc tend to unite for the purposes of organizing congress and preventing serious opposition blows to the administration's prestige, but they frequently fail to respond to the administration's efforts to promote its program in congress. Within the administration bloc, the Brazilian Labor Party (PTB), the Social Progressive Party (PSP), and the Republican Party (PR), until recently

formed a separate "minority" grouping. This arrangement permitted leaders of the "minority" parties to further partisan political objectives by enunciating their own pro-labor, reformist, or highly nationalistic platforms, often in opposition to Kubitschek's program. While the "minority" disbanded in November 1956, it may still operate on an ad hoc basis on specific issues. By aligning itself with the regular opposition, this group can defeat any measure the administration proposes.

14. Kubitschek is further handicapped by the growing schism within his own (PSD) party. Here the struggle for power continues between the established moderate leadership of the party and a "young wing," led by chamber majority leader Tarcilo Vieira de Melo, which believes that the PSD must build a broader, lower-class base if it is to remain in power. Accordingly, the young wing has tended to vote with the "minority" on issues that directly affect the lower income groups, and it further embarrasses the administration by generally adopting ultranationalistic positions.

15. The opposition, dominated by the National Democratic Union (UDN), takes full advantage of the divisions and weaknesses in the administration bloc. It generally employs tactics designed to split the administration parties or force the government to adopt a politically unpopular position. However, the moderate-conservative UDN cooperates with Kubitschek and the PSD moderates to forestall labor-leftist advances. The PSD and UDN recently joined forces to block a PTB-PSP-sponsored effort to extend urban labor legislation to rural workers.

16. Despite the situation described above, President Kubitschek is able to take some positive action. He has secured from congress new tax laws to cover, in part, sharply increased government expenditures. Furthermore, by virtue of special authority vested in the executive, Kubitschek is able to operate independently on a broad range of economic matters, including regulation of exchange rates, restriction of bank credits, encouragement of foreign private enterprise in some fields, and negotiation of development loans.

³ Party Strength in Brazilian Legislature

| Party | Senate | Chamber of Deputies |
|---------------------------------|-----------|---------------------------|
| <u>Administration Bloc</u> | | |
| Social Democratic Party (PSD) | 23 | 116 |
| Brazilian Labor Party (PTB) | 15 | 62 |
| Social Progressive Party (PSP) | 4 | 31 |
| Republican Party (PR) | 4 | 17 |
| Others | 1 | 10 |
| | <u>47</u> | <u>236</u> |
| <u>Opposition Bloc</u> | | |
| National Democratic Union (UDN) | 12 | 73 |
| Liberator Party | 3 | 10 |
| Others | 1 | 7 |
| | <u>16</u> | <u>90</u> |
| | <u>63</u> | <u>326</u> |

17. Although the Communist Party is outlawed, the Communist movement is well-organized and well-financed. Through its infiltration of various agencies of the government and through its influential press, it is able to cooperate effectively with the non-Communist ultranationalists in both congress and the army in exploiting the already highly developed nationalistic sentiments of the population. However, the Communists by themselves do not constitute a serious threat to the Kubitschek regime. In the 1955 Presidential campaign, they threw the entire weight of their propaganda machine behind the Kubitschek-Goulart ticket, and subsequently they claimed credit for the election victory. However, in view of the administration's refusal to extend political amnesty to them, they are forced to operate on the fringes of the political scene. While the Communists follow a firm "united front" policy, they appear to assume an ambivalent attitude toward the present regime, opposing its pro-US gestures while applauding its efforts to curb the rightist opposition.⁴

THE ECONOMIC PROBLEM⁵

18. Kubitschek's political problem is aggravated by Brazil's serious economic difficulties. The administration's basic economic problem is to maintain a satisfactory rate of economic growth and development. Although Brazil has experienced rapid economic growth since World War II, the rate of growth has slackened over the past two years.⁶ Development is being handicapped by distortions and lack of balance in the domestic economy resulting from divergencies in the rate of growth among the various sectors. Brazil's rapid industrial growth has not been accompanied by adequate development of transportation and power and of mining and agricultural production for export. Kubitschek is attempting to further a development program designed to rectify these maladjustments. His primary effort is being devoted to improvement of power and transport facilities.

⁴ See Appendix C for additional information on the Communists.

⁵ See Appendix D for information on Brazil's international economic ties.

Recently, the Eximbank agreed to consider loans up to \$100 million to Brazilian railroads conditioned on consolidation of the rail network. The Eximbank also provided loans of over \$60 million for other development purposes. However, since these loans are far from sufficient for meeting Brazil's growing development needs in the field of basic services, and since adequate domestic financing for such projects is unavailable, the administration is seeking additional foreign assistance.

19. Control of inflation is the administration's most pressing immediate problem. Brazil's post World War II economic growth has occurred under conditions of uninterrupted inflation. The annual average increase in the cost of living for the years 1951-1955 was approximately 22 percent, but for the 12-month period ending September 1956, it rose to 30 percent. This rise partly reflects the administration's political difficulties. Major factors contributing to the current inflation include: (a) a large budget deficit,⁷ (b) a rapid expansion in the money supply (11 percent during the period January-June 1956), largely due to Central Bank financing of the budgetary deficit, (c) liberal pay increases for the armed forces and for civilian government personnel and an increase of over 50 percent in the legal minimum wage in August 1956, and (d) a rapid expansion of commercial and consumer credit. The administration is now attempting to hold the line on inflation by reducing ad-

⁶ In the 1946-1955 period, the gross national product (GNP calculated on the basis of 1950 cruzeiro prices converted to US dollars at 18.5 to 1) increased from \$11.2 billion to \$17.7 billion, the per capita product from \$237 to \$303. This represented an annual expansion rate of 6.4 percent in the GNP and 3.1 percent per capita. During this same decade gross investment amounted to about 16 percent of the GNP annually. However, the rate of growth has slackened somewhat over the past two years. In 1955, the GNP growth rate slowed to 3.9 percent, the per capita growth rate to 2 percent, and the ratio of gross investment to GNP to 14.6 percent. Though the 1956 figures are not yet in, they probably are not below those for 1955.

⁷ At the end of the first nine months of 1956, the deficit was some 13 billion cruzeiros on total expenditures of 60 billion cruzeiros. This deficit was somewhat less than the administration anticipated at the beginning of 1956.

ministrative expenditures, tightening credit, improving collection of taxes, and increasing tax rates. By such measures, inflation is being moderated but by no means corrected.

20. In the past, Brazil's insistence on maintaining a high rate of industrialization, even at the cost of severe inflation, has contributed heavily to recurrent foreign exchange shortages. Export earnings have been generally inadequate to meet the growing demand for imports, despite the efforts of successive administrations to curb nonessential imports. In 1953 and 1954 Brazil averted foreign exchange crises only by borrowing \$500 million from government and private banking institutions in the US. In 1955, as a result of the imposition of tight import restrictions and the resurgence of world demand for coffee, Brazil was able to show a favorable balance of payments of \$100 million, and under the Kubitschek administration, the exchange position is continuing to show improvement. However, this favorable trend is threatened by the approaching maturity of a large volume of outstanding foreign loans. By the end of 1960, Brazil is scheduled to repay \$782 million out of a total of \$1,074 million in outstanding loans and credits. The administration sought to obtain long-term refunding of its medium-term obligations with the Eximbank. However, the Eximbank declined to consider such refunding, but agreed to a postponement of repayments whenever Brazil's dollar availabilities deteriorate materially. For the moment, Brazil's exchange position is relatively favorable.

21. Increasingly heavy fuel imports also threaten the nation's exchange position. Over one-third of current dollar receipts are allocated to petroleum imports, and requirements are growing rapidly.⁸ Any increases in crude oil prices or transport costs resulting from the Suez crisis will result in an additional drain on Brazil's dollar receipts. Finally, an ever-present threat to the Brazilian economy is a possible sharp fall in the price of coffee or a serious crop failure, for coffee exports now account for two-thirds of Brazil's foreign exchange earnings and 80 percent of its dollar earnings. Present coffee shipments are mov-

ing at a higher rate than in 1954 and 1955, and prices have risen somewhat above 1955 levels.⁹

BRAZIL AND THE US

22. The Kubitschek administration, keenly aware of the advantages to be derived from cooperation with the US in political, economic, and military matters, is attempting to continue Brazil's traditional pro-US foreign policy. It is most successful with respect to cooperation on major international political issues largely because these issues do not involve any question of Brazil's sovereignty or appreciably affect the domestic scene. Thus far it has been able to resist leftist-nationalist-Communist pressures to detach Brazil from its close ties with the US and to resume or establish diplomatic relations with the USSR (which Brazil severed in 1947) and other members of the Sino-Soviet-Bloc.¹⁰ Recently it was able to overcome certain military and congressional reservations and push through authorization for Brazil to contribute troops to the UN forces in the Suez Canal area.

23. The President is far less successful in the realm of economic and military cooperation. In these matters, he must generally defer to the army and congress, both of which are highly sensitive to any developments which

⁸ The advantages of foreign private development of domestic petroleum resources has long been recognized by many prominent Brazilians, in view of the lack of good coal reserves and insufficiently developed hydroelectric resources. In 1953, however, extreme nationalists and Communists spearheaded passage of legislation establishing a government petroleum monopoly (Petrobras) and excluding foreign capital, and they have since prevented modification of the legislation by succeeding administrations. Petrobras has ambitious plans for expansion of domestic petroleum production and within four years expects to satisfy half of the national requirements, but it will almost certainly be unable to do so.

⁹ Average Coffee Prices Table: (Santos 4's)

| |
|---------------------|
| July 1954 - 88¢ |
| February 1955 - 54¢ |
| February 1956 - 58¢ |
| December 1956 - 60¢ |

¹⁰ Brazil maintains diplomatic relations with only two members of the Bloc — Poland and Czechoslovakia.

appear to infringe upon Brazilian sovereignty. Their ultranationalistic influence is largely responsible for the recent Brazilian National Security Council recommendation that Brazil withdraw from its atomic minerals prospecting and thorium sales agreements with the US and set up a government monopoly on sales.¹¹ Their influence is also largely responsible for the President's inability to alter the government petroleum monopoly so as to permit foreign private capital to develop the nation's oil resources. Kubitschek favors the expansion of foreign private investment in other sectors of the Brazilian economy, but there is strong opposition in congress to such a policy. Some business interests support the current nationalist campaign because they fear competition from foreign enterprises.

24. In matters dealing with military cooperation with the US, the President often finds himself at odds with the armed forces and frequently is forced to accept their views. In the protracted negotiations over military base requirements,¹² the Brazilian military is utilizing its position of influence in the government in order to obtain maximum amounts of equipment from the US. Both the administration and the armed forces are attempting to by-pass congress in these negotiations because of fears the latter would reject any new military agreement. Accordingly the current negotiations are being handled under the existing 1952 Brazil-US MDAP agreement.

OUTLOOK

25. So long as the power struggle among the various military and civilian elements continues, the possibility is always present that the Brazilian political situation may suddenly change, either as a result of a military coup, a new coalition of competing civilian elements,

or a notable increase in the administration's influence over the armed forces and congress.

26. The persistence of the split in the military organization makes it improbable that the armed forces will be able to take concerted political action, but it is possible that a coup might be attempted by one of the military factions. If General Lott, with backing of labor-nationalist elements, should attempt to seize power, or if the air force, the navy, and the anti-Lott faction of the army, with the backing of conservative civilian elements, were to attempt a coup, we believe the chances of success in either case would be less than even. Lott's withdrawal or removal from the administration would tend to heal the breach in the armed forces and reduce the possibility of military intervention over the short run.

27. The 1958 state and congressional election campaigns will subject the present government to additional political strain. Competition for influence and power by parties within the "administration bloc" is likely to reduce further the political viability of the regime and to increase the threat of military intervention.

28. Nevertheless, we believe that the delicate balance that exists among the competing elements and the great risks involved for any element that attempts to upset this balance make it likely that the present situation of political tension and instability will continue unresolved. Kubitschek will probably be able to stay in office over the next two years. However, the great political handicaps under which he labors are likely to continue. It is unlikely that he will be able to build up disciplined political support in congress or to curb effectively the army's political influence.

29. The Communists will probably continue to display an ambivalent, opportunistic attitude toward the present regime. The party will continue to exploit social discontent and anti-US nationalist tendencies. It has no prospect of gaining direct control of Brazil by electoral means or by force within the foreseeable future. However, the persistence of political tension and instability in Brazil will enhance Communist opportunities to expand their influence.

¹¹ Brazil's raw material potential could be an asset in the atomic energy field. Several uranium deposits are known to exist. However, due to inability, in terms of equipment and personnel, to conduct effective geological surveys, no firm estimate of total uranium reserves can be made. Brazil is one of the two major world resources of monazite (thorium source) and of beryl, and Brazil's known resources of zirconium are substantial.

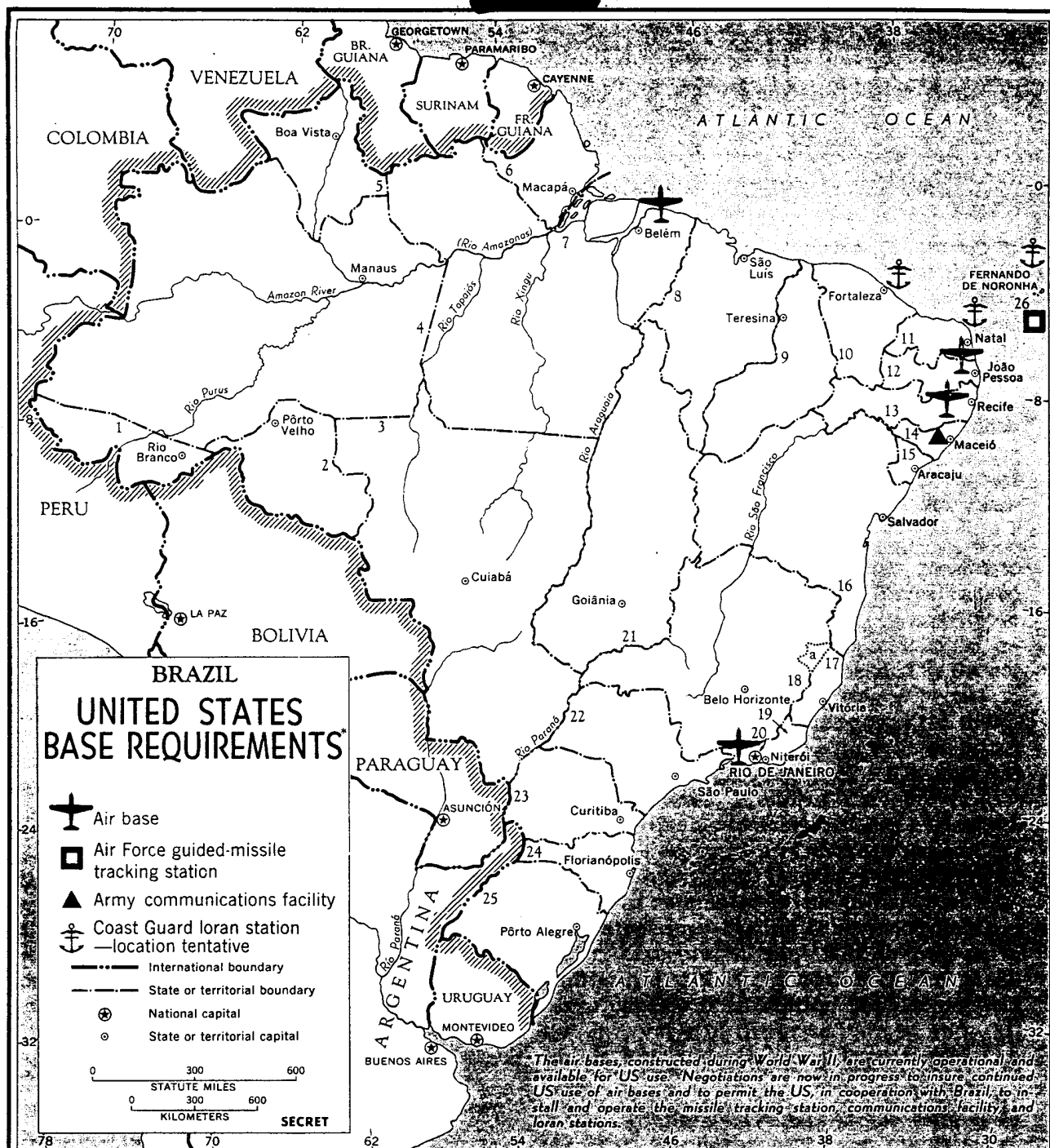
¹² See map following page 7.

30. Inasmuch as Brazil is so highly sensitive to and dependent upon a number of virtually unpredictable international economic developments, no firm estimate of domestic economic developments can be made. A sharp upswing in oil prices and transport costs, resulting from the Suez crisis, could reverse Brazil's currently favorable foreign exchange position. A sharp price decline in coffee would quickly result in serious economic maladjustments. In this latter situation the Kubitschek administration might require outside assistance in order to survive.

31. Assuming no severe adverse economic shocks induced from the outside, the government will probably continue to make progress in the development of basic services, particularly transportation and power. However, the rate of economic growth is unlikely to increase appreciably over the next two years. Inflation will almost certainly persist, but will probably not exceed the high rate of previous years.

32. The present administration will almost certainly continue to support the US on major political issues between the US and the Soviet Bloc and will cooperate with the US on most important political issues in Hemisphere affairs. However, the persistence of ultranationalistic influences in congress and the armed forces will continue to impede certain types of foreign investment. There may be some moderation of the recent nationalistic trend in the atomic energy field, but the government's petroleum monopoly will almost certainly be preserved.

33. Brazil is likely to agree to grant the major portion of US base requirements, but only after exhausting every effort to obtain maximum material benefits. The base agreements, if concluded, will probably be subjected to a concerted Communist-nationalist attack, but we believe the Kubitschek administration, with army backing, would be able to weather such an attack.



INDEX TO STATES AND TERRITORIES

- | | | |
|-----------------------------|---|---------------------------------------|
| 1. Território do Acre | 10. Ceará | 18. Minas Gerais |
| 2. Território do Rondonia | 11. Rio Grande do Norte | 19. Rio de Janeiro |
| 3. Mato Grosso | 12. Paraíba | 20. Distrito Federal |
| 4. Amazonas | 13. Pernambuco | 21. Goiás |
| 5. Território do Rio Branco | 14. Alagoas | 22. São Paulo |
| 6. Território do Amapá | 15. Sergipe | 23. Paraná |
| 7. Pará | 16. Bahia | 24. Santa Catarina |
| 8. Maranhão | 17. Espírito Santo | 25. Rio Grande do Sul |
| 9. Piauí | a. area disputed by Espírito Santo and Minas Gerais | 26. Território de Fernando de Noronha |

APPENDIX A

POLITICAL BACKGROUND

1. Brazil's political history over the past quarter of a century has centered around the late President Getulio Vargas. He was an astute politician who shrewdly manipulated opposing factions and successfully posed as the friend of the common people. During his first period in power (1930-1945) he established the quasi-fascist "New State" as an ideological facade for his strong personal rule. He espoused cultural and economic nationalism, established federal control over the states, abolished political parties, suppressed all opposition of both the left and right, encouraged government intervention and initiative in economic development, promoted industrialization, concerned himself with amelioration of the living conditions of the urban masses, extended the franchise, and sought to mobilize and control urban labor as a political force through government-sponsored labor unions. It was during this period that urban lower income groups began to become an important factor in Brazilian politics.

2. In 1945, in response to a growing opposition to totalitarianism, the Brazilian army quietly deposed Vargas and established a relatively free political system with General Eurico Gaspar Dutra as constitutionally elected president. The two principal political parties which emerged were the moderate Social Democratic Party (PSD) and the moderate-conservative National Democratic Union (UDN). Both were heterogeneous in composition, but received their direction primarily from upper middle class elements. The PSD was led by men who had been prominently associated with Vargas in the "New State," while many leaders of the UDN had opposed Vargas.

3. Largely because the Dutra administration failed to cope effectively with the growing economic hardships suffered by lower middle class and labor groups, Vargas was able to rebuild a political machine centered around the Brazilian Labor Party (PTB), and win

the 1950 presidential elections. However, he was no more successful in coping with Brazil's mounting economic difficulties than his predecessor had been. By adroit politics, Vargas was able for four years to withstand strong moderate-conservative opposition. However, in August 1954, finding himself unable to stop the country's rapid economic and political deterioration and confronted with the direct threat of intervention by the armed forces, he resigned under pressure and committed suicide.

4. Political power in Brazil then passed to moderate-conservative civilian forces backed by military leaders interested primarily in preserving political order and established institutions. This new regime, headed by former Vice-President Cafe Filho, was expected to enact the unpopular measures required to improve the deteriorating economic situation and to curb the growing labor-leftist political trend. However, President Cafe proved unwilling or unable to exert decisive leadership. Instead he assumed a caretaker role, and his brief administration (August 1954-November 1955) was dominated by the presidential election campaign. During this period political leaders maneuvered frantically to form party coalitions and find candidates for the presidency capable of attracting popular support and acceptable to the armed forces, and ultimately four slates of candidates were nominated.

5. The Kubitschek-Goulart ticket, backed by the PSD, the leftist PTB, and the Communists, won the 3 October 1955 presidential elections, although Kubitschek received only a third of the popular votes. His principal opponent, General Juarez Tavora, the candidate of the UDN and most of the armed forces and conservatives, polled 29 percent. More than one-quarter of the votes were cast for Social Progressive Party (PSP) candidate Adhemar de Barros, who was competing with

[REDACTED]

Kubitschek for the late President Vargas' labor-leftist following.

6. PSD leader Juscelino Kubitschek, at the time of his election, had over 20 years experience in local, state, and national politics, and a reputation as an ambitious, effective politician and able administrator. While he had held appointive office under Vargas, he was not closely associated with the Vargas regime. Much of Kubitschek's appeal to the electorate stemmed from the confidence he conveyed in Brazil's economic future. This also enabled him to secure the strong support of nationalists, including financial backing from large commercial-industrial interests. However, as he was relatively unknown outside his home state of Minas Gerais, he had to rely heavily upon the PSD machine to deliver the rural vote and upon his alliance with the PTB to ensure the allegiance of the urban working class.

7. PTB leader Joao Goulart, who was generally considered Vargas' heir, was already a well-known, powerful, national political figure prior to the elections. He controlled the PTB bloc in congress, and, more than any other individual, commanded the loyalty of the

urban working classes. Despite PTB-Communist rivalry for control of the lower classes, Goulart had at times collaborated with the Communists, and this largely explained why the Communists supported the Kubitschek ticket. Though he began to cool toward his erstwhile Communist colleagues soon after the election, he was still regarded with suspicion by the bulk of the army and remained unacceptable to the air force and navy.

8. Political tension, already severe throughout the campaign, mounted during the weeks following the election. The more moderate opposition elements pressed technical objections to the Kubitschek-Goulart victory and planned a formal appeal to the Supreme Court. However, extremist forces, both civilian and military, openly advocated a coup to prevent the victors' inauguration. While there was little enthusiasm for the winning ticket among the military, War Minister Lott insisted that the armed forces should abide by the results of the election. Apparently convinced that an anti-Kubitschek-Goulart coup was imminent, Lott on 11 November 1955 led a counter-coup which placed the army in effective control of the Brazilian government until Kubitschek's inauguration.

[REDACTED]

APPENDIX B

ARMED FORCES CAPABILITIES

1. The Brazilian armed forces, organized and trained on US lines, have an over-all strength of approximately 218,000. The army, numbering 108,000, consists of 7 infantry, 4 cavalry, 1 armored division, 1 airborne division nucleus, and numerous separate combat units and supporting troops. In addition, there are 57,000 militarized police available for local and regional use. The navy, with a personnel strength of 25,800 (including 4,600 marines), has a combat force of 2 light cruisers, 7 destroyers, 3 old submarines, and 97 service, patrol, and auxiliary vessels. It is scheduled to receive two submarines on loan from the US and has purchased an aircraft carrier from the UK. The air force, with a personnel strength of more than 27,000 (including 1,230 pilots), maintains 4 fighter, 3 light bomber, 2 patrol, 2 reconnaissance, and 2 transport squadrons. It has about 1,000 aircraft, including 67 British jet fighters.

2. The operational effectiveness of the armed forces has increased as a result of their reorganization and operational experience with US forces in World War II and of the assistance of US military missions, and is high by Latin American standards. Over-all effectiveness is impaired, however, by a lack of adequate support facilities, poor maintenance, and general obsolescence of equipment, and dependence on foreign sources for resupply of material, munitions, and fuel.

3. Brazil participates in the Inter-American Defense Board and has a bilateral military assistance agreement with the US. The latter document specifies that Brazil will, as a matter of primary responsibility, defend its coastal sea communications and defend and maintain air communications, including the bases and air facilities of its air force located in its territory. Particular attention is to be given to the routes and bases between Recife and the Brazil-French Guiana frontier. In addition, Brazil is to provide certain units which will assist the United States in the protection of the Panama Canal and the sea and air communications in the Caribbean Sea, excluding the territorial waters of other states. With MDAP support, the equipment and training of these units is being improved.

4. The Brazilian armed forces are adequate to maintain internal security and to deter aggression by any neighboring power. They could not repel a major overseas invasion without US assistance. In the event of general war they could probably protect strategically important installations and facilities from extensive sabotage and from possible raids. The Brazilian navy and air force have limited convoy escort and antisubmarine warfare capabilities, but effective patrol of the long Brazilian coast would require the active participation of US forces. With US logistic support Brazil could provide a small expeditionary force.

APPENDIX C

THE COMMUNISTS

1. The illegal Communist Party (PCB) is the largest in the Western Hemisphere. It is now estimated to have 60,000 members and a much larger number of sympathizers.¹ It is well-organized and well-financed. It draws its chief support from urban labor and lower middle class groups, although the leadership of the party is composed largely of professional men and intellectuals. The Communist Party not only maintains numerous newspapers for the dissemination of propaganda but also runs an extensive school system for the indoctrination of party cadres. Its present strength is concentrated in and around the city of Rio de Janeiro, and the important state of Sao Paulo.²

2. The Communists have had some success in infiltrating various agencies of the government, especially the Ministry of Labor. That the military has also been penetrated is evident from the known Communist sympathies of some lower-echelon army officers. The recent Brazilian National Security Council recommendation to suspend its atomic minerals prospecting and sales agreements with the US was partly the result of Communist influence in government agencies and in the army. Communists have also infiltrated several student organizations. The ability of the PCB to direct student activities to their own political ends was demonstrated in the violent Rio de Janeiro streetcar riots of May 1956.

3. The basic PCB objectives appear to be to strengthen international Communism, and

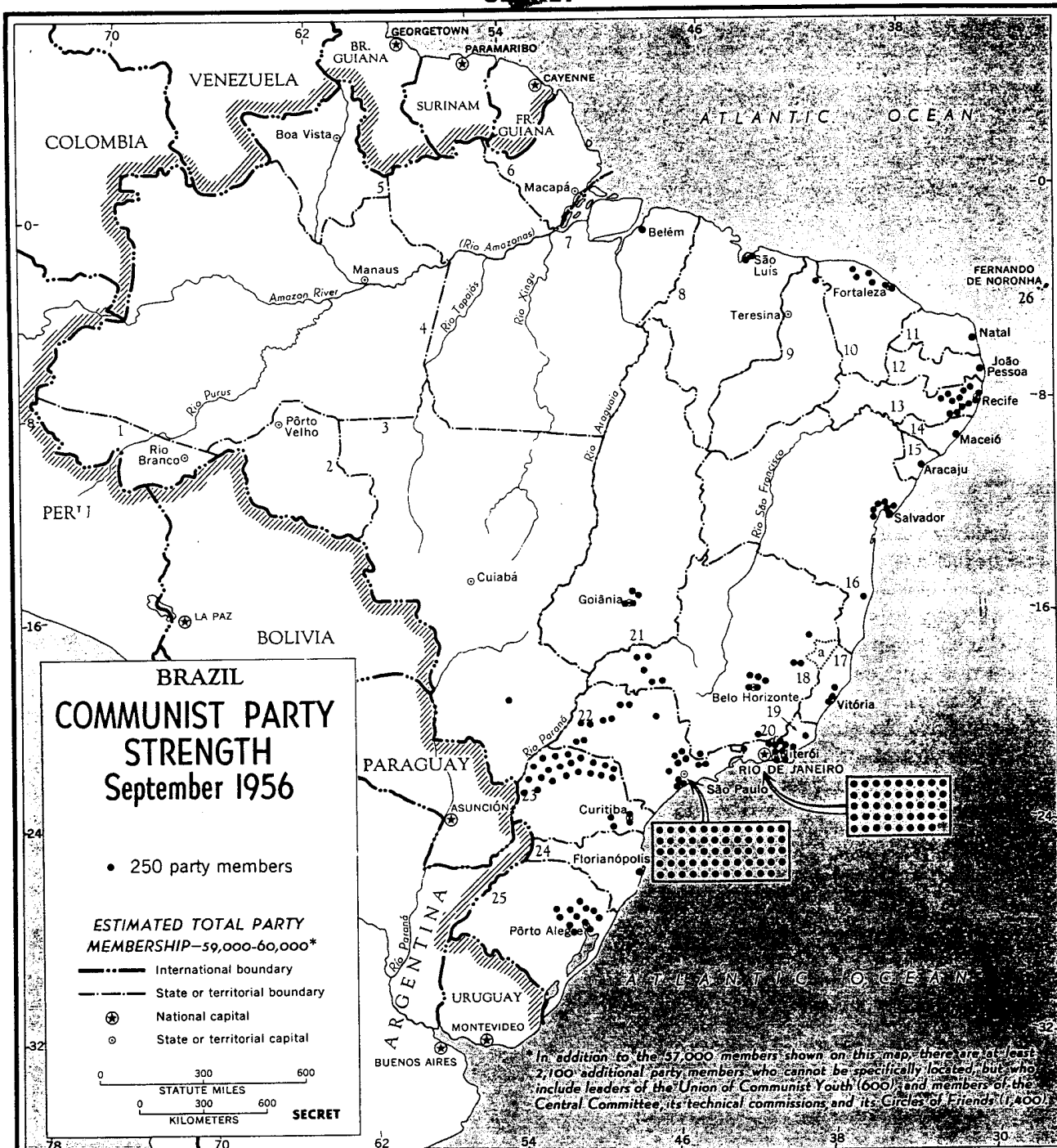
¹ NIE 93-55 estimated PCB strength at 100,000 to 120,000. The presently reduced estimate is based, not upon an actual decline in PCB membership, but rather upon more reliable intelligence obtained during 1956.

² The following map shows more fully the distribution of Communist strength in Brazil.

more particularly, to serve the interests of the USSR by weakening the US position in Brazil. The Communists attempt, at every opportunity, to impair relations between Brazil and the US, to neutralize Brazil as an effective component in the military defense of the Hemisphere, to prevent or hamper the procurement of strategic materials by the US in Brazil, and to promote in Brazil a neutralist position in international relations. Domestically the announced objective of the PCB is the formation of a "democratic peoples' government," based on an alliance of urban workers and peasants. To this end they have maintained a virulent attack on "feudal" landholders and pro-US domestic capitalists, whom they describe as "servile instruments of North American capitalism." They are willing to cooperate with any group which endorses all or part of their program.

4. Present Communist strength is insufficient to constitute a serious threat to the Kubitschek regime. Although Communist labor leaders still constitute a minority in the trade union organization, they have considerable influence within many important local unions. The PCB lacks the dedicated popular following which would enable it alone to seize the government by force. Nevertheless, the Communists continue to exert their influence on both Brazil's foreign and domestic policies by exploiting the nationalist tendencies and social discontent in the non-Communist population. It is too early to determine what effect the results of the XXth Congress of the Communist Party of the Soviet Union, the de-Stalinization campaign, or the revolt in Hungary will have on Party capabilities. The official Party line will probably be determined at the Fifth Congress of the PCB, for which preparations are now in progress.

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INDEX TO STATES AND TERRITORIES

- | | | |
|-----------------------------|---|---------------------------------------|
| 1. Território do Acre | 10. Ceará | 18. Minas Gerais |
| 2. Território do Rondonia | 11. Rio Grande do Norte | 19. Rio de Janeiro |
| 3. Mato Grosso | 12. Paraíba | 20. Distrito Federal |
| 4. Amazonas | 13. Pernambuco | 21. Goiás |
| 5. Território do Rio Branco | 14. Alagoas | 22. São Paulo |
| 6. Território do Amapá | 15. Sergipe | 23. Paraná |
| 7. Pará | 16. Bahia | 24. Santa Catarina |
| 8. Maranhão | 17. Espírito Santo | 25. Rio Grande do Sul |
| 9. Piauí | a. area disputed by Espírito Santo and Minas Gerais | 26. Território de Fernando de Noronha |

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APPENDIX D

INTERNATIONAL ECONOMIC TIES

1. Brazil's principal economic ties are with the US. Trade normally amounts to over \$1 billion annually, which amounts to about 40 percent of Brazil's total trade, and US private investment in Brazil is over \$1 billion. The US is Brazil's most important source of needed financial and technical aid. The Eximbank has authorized credits of over \$600 million in the past five years. Brazil also receives substantial assistance for economic development under Public Law-480 agreements signed November 1955 and December 1956. In addition, the International Cooperation Administration furnishes technical assistance.

2. Brazil's trade with the Sino-Soviet Bloc, almost exclusively with Czechoslovakia, Poland, and Hungary, doubled to \$85 million in 1955 as compared with 1954. This still amounts to only three percent of Brazil's total foreign trade. Trade with the Bloc during 1956 has continued to expand but at a much less rapid rate than in 1955. During the period January-June 1956, Brazil's trade with the Soviet

Bloc amounted to \$46 million, or four percent of total trade. Brazil's trade with the Sino-Soviet Bloc is not likely to increase appreciably over the next two years.

3. With Western Europe Brazil is attempting to increase its commercial ties in order to strengthen its international economic position. Bilateralism is being abandoned in favor of multilateral arrangements in Western Europe. In April 1955, Brazil and a number of Western European countries established the Hague Club, modeled after the European Payments Union. The Hague Club agreement means that in trade with Brazil, the currencies of the West European countries are freely interchangeable, so that the markets for Brazilian exports and sources of supply of Brazilian requirements are considerably extended. The Kubitschek administration is continuing the policy of the previous administration in attempting to broaden commerce with nondollar areas.

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